Corporate Planning & Financial Services Report to Regular Meeting of Council
2024 April 30

ISC: UNRESTRICTED
C2024-0552

Understanding The City of Calgary's Financial Position and Funding Shortfall from the Province

PURPOSE

This report is seeking Council approval of Administration's commitment to reductions for the 2025 base budget based on a review of 2023 operating budget efficiencies, directing any 2023 positive operating variance not already committed, and the positive variance of the 2023 ENMAX dividend and any uncommitted positive variance from 2023 Franchise Fees, to support existing capital projects experiencing cost escalations. This strategy aims to mitigate the funding gap faced by The City of Calgary due to reduced provincial funding, as outlined in the Council-approved Notice of Motion (EC2024-0371) regarding the management of costs associated with the transfer of provincial responsibilities to municipalities.

PREVIOUS COUNCIL DIRECTION

On 2024 March 19, Council approved a Notice of Motion (EC2024-0371) directing Administration to prepare recommendations to address The City of Calgary's funding shortfall from the Government of Alberta, and to bring those recommendations to the 2024 April 30th Regular Meeting of Council.

RECOMMENDATION(S):

That Council:

Direct Administration to:

1. Review the 2023 operating variances for recurring and non-recurring events and determine if 2025 base budgets can be reduced where recurring events causing efficiencies (or positive variances) continue into 2025
2. Commit to reductions to the 2025 base budgets correlated with services that have created efficiencies in the 2023 operating budget, or redeployment of the funds achieved through efficiencies, and
3. Prepare identified reductions and efficiencies for Council's consideration during the 2024 November Mid-Cycle Adjustments to the 2023-2026 Service Plans and Budgets.
4. Commit the following transfers for capital cost escalations on existing capital projects:
    a. $137.7 million as the uncommitted balance of the 2023 positive operating variance from the Fiscal Stability Reserve to the Reserve for Future Capital;
    b. $35 million the 2023 ENMAX dividend variance from the Legacy Parks Reserve to the Reserve for Future Capital; and
    c. $34.6 million for the 2023 Franchise Fee variance.

CHIEF ADMINISTRATIVE OFFICER/GENERAL MANAGER COMMENTS

Carla Male, Chief Financial Officer and General Manager of Corporate Planning and Financial Services concurs with this report.

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HIGHLIGHTS

- According to the Municipal Fiscal Gap report, The City of Calgary faces a $311 million annual shortfall due to persistent cuts in capital and operating funding from the Government of Alberta.
- The Local Government Fiscal Framework doesn't consider population growth and inflation, leading to an estimated $1 billion funding gap for all municipalities.
- The Government of Alberta is increasing provincial property tax collection from Calgarians by $95.5 million in 2024, a 12% increase over 2023.
- The provincial government has reduced funding and offloaded responsibilities such as housing, emergency response, and mental health programs to municipalities.
- To maintain a high quality of life and services, The City of Calgary must address the funding shortfall created by the Government of Alberta.
- The 2023 Progress Update report identified a 2023 positive operating variance by service (Attachment 2). Researching the root causes will identify if positive operating conditions may continue to recur in 2025 and can contribute to reductions or efficiencies in the 2025 base budget.

DISCUSSION

The City of Calgary has faced significant fiscal challenges due to the process of downloading responsibilities from the provincial government. This transfer of duties, often without corresponding financial support, has widened the fiscal gap and placed a strain on The City's resources. City of Calgary services highlighted the profound effects on various sectors, including social housing and transportation, indicating that Calgary is grappling with the added pressures of these new obligations.

Financially, the city has encountered an average annual impact of $311 million, stemming from increased costs and funding deficits. These figures arise from changes in cost-sharing agreements, expanded roles for The City without additional funding, and entirely new responsibilities without any financial backing. Notably, the capital grant cuts, amounting to $235 million annually, have been a major contributor to this financial strain. The reduction and eventual phase-out of the Municipal Sustainability Initiative (MSI) by the Alberta Government has led to a shortfall in expected support for municipalities, exacerbating the fiscal challenges faced by Calgary (Attachment 3). The City is in the process of updating the estimate of the average annual impact and will report to Council in 2024 June.

Looking ahead, The City must navigate these fiscal waters with caution, especially considering looming risks such as climate change and inflation. Any change in Provincial funding will take time and negotiation; however, inflation is having an immediate impact on The City's ability to deliver approved capital projects. The City needs to address those impacts within current available funding until additional funding can be secured. As identified in EC2024-0291, the unallocated balance of the 2023 favourable operating variance ($137.7 million), along with the unallocated balance of the 2023 Franchise Fees variance ($34.6 million and the variance in the 2023 ENMAX dividend ($35 million, from the $82 million total dividend) provide an opportunity to dedicate funding to address cost inflation without impacting other approved capital projects. As

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per Council policy and direction, the operating variance flows to the Fiscal Stability Reserve (FSR), the ENMAX dividend is transferred to the Legacy Parks Reserve and the Franchise Fees variance is transferred to the Reserve for Future Capital and Lifecycle Maintenance & Upgrade merged reserve (RFC). Council approval is required to consolidate funds and commit them to address these inflationary impacts. Although EC2024-0371 indicates that the funds should be held in the FSR, Administration recommends that they be held in the RFC, as the RFC is a capital reserve which is more consistent with the intended use of the funding.

In addition, Administration is reviewing past budget variances and budgeting practices to determine where reductions and efficiencies can be used to create capacity in in the 2025 base budget. Early indications would indicate that reductions may be found in the area of consistent budgeting for salary and wage amounts, better estimations for provisions and a review of other sources. This will be incorporated into, and reported through, the Mid-Cycle Adjustments process.

EXTERNAL ENGAGEMENT AND COMMUNICATION

☐ Public engagement was undertaken

☐ Public/interested parties were informed

☐ Dialogue with interested parties was undertaken

☒ Public communication or engagement was not required

IMPLICATIONS

Social

Not Applicable

Environmental

Not Applicable

Economic

Not Applicable

Service and Financial Implications

Existing capital funding - one-time

The recommendations in this report commit existing funding of $207.7 million to manage capital costs in existing projects that are experiencing costs escalation. Funding will be allocated to capital projects when budget is approved by Council.

RISK

The recommendations to commit existing funds is to mitigate the risks of cost escalation impeding the completion of capital projects. Committing these funds though carries the risk of restricting available funding indefinitely that could be used to fund other priorities.

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ATTACHMENTS

1. Previous Council Direction, Background
2. 2023 Progress Update - Service Updates
3. 2023 Municipal Fiscal Gap

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Carla Male, CFO and GM of CPFS	Corporate Planning and Financial Services	Approve

Author: Chief Financial Officer's Office, Corporate Planning and Financial Services